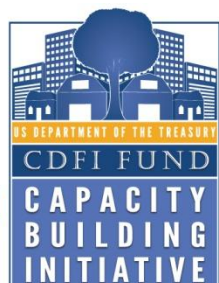




Underwriting Grocery Stores 201: A Deeper Look

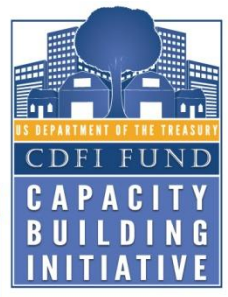
Christina Szczepanski
The Reinvestment Fund

August 22, 2012



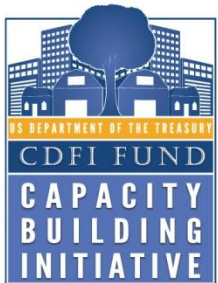
Introduction

- CDFI Fund's Capacity Building Initiative
 - Financing Healthy Food Options
 - Workshops
 - Technical Assistance
 - Resource Bank



Today's Webinar Topic

- Brief review of Underwriting Grocery Stores 101
- Deeper dive – critical questions and analytical tools
- Extensive time for questions and answers

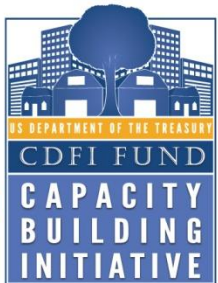


Christina Szczepanski



The Reinvestment Fund

Christina.Szczepanski@trfund.com
www.trfund.com

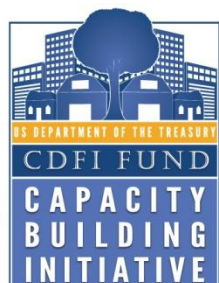




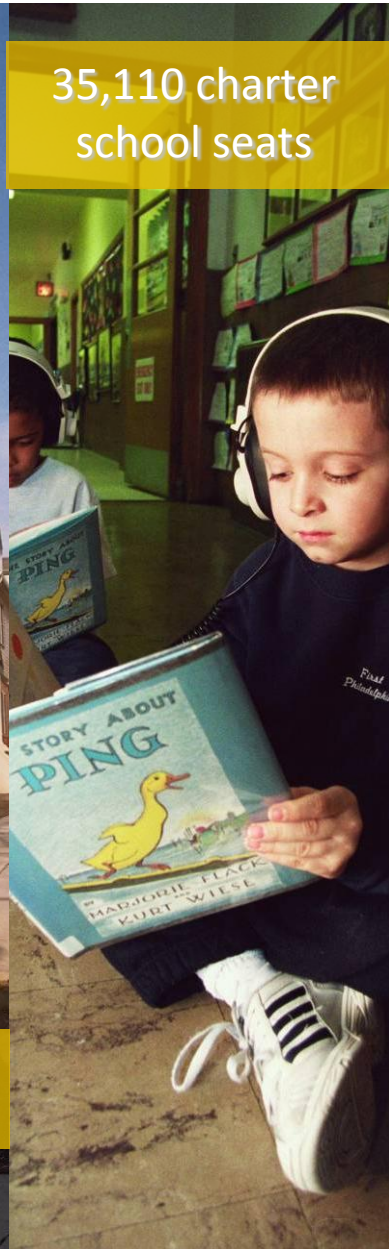
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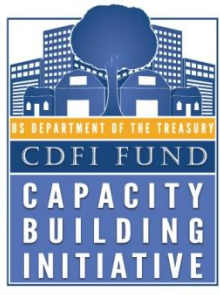
TRF Outcomes



Review of Underwriting Grocery Stores 101

You can access a video of this webinar on the CDFI Fund's Virtual Resource Bank:

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp

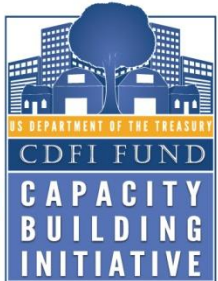


Review of Underwriting Grocery Stores 101

Conventional/Traditional

Limited Assortment/Discount

Superettes

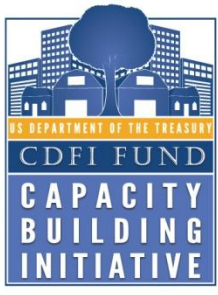


Review of Underwriting Grocery Stores 101

Critical Underwriting Factors

- Location & Competition
- Management Experience
- Profit Margin (variable costs, controllable costs)
- Product Mix
- Capital Investment (fixed costs, core costs)
- Cash Flow Drains (theft, shrink, waste, spoilage)

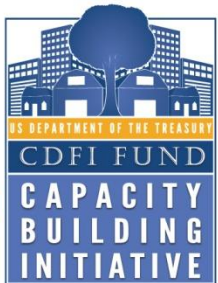
***Have to analyze each aspect to
understand store risk***



Agenda:

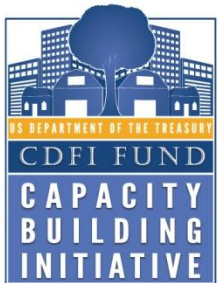
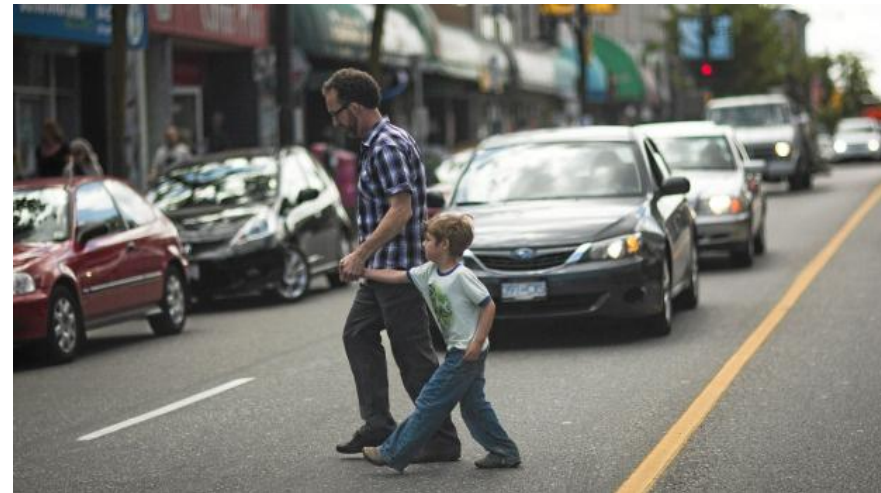
Underwriting Grocery Stores 201

- Location
- Understanding Your Operator's Business Model
- Scenario Analyses
 - Base Proforma
 - Sales
 - Gross Margin
- Q & A



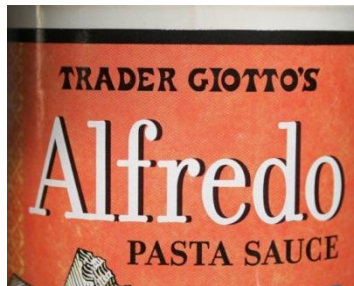
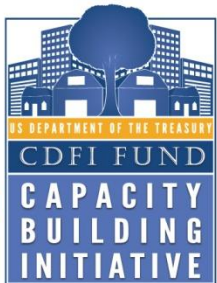
Location

- Why might a grocery store built across the street from another grocery store work?
- Rooftops and disposable income
- Car / foot traffic generators



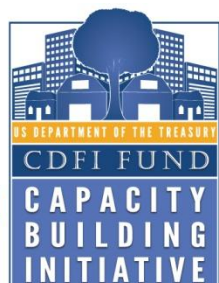
Understanding Your Operator's Business Model

- High volume, very low prices
- High service, moderate pricing
- Convenience, limited SKUs
- High private label
- High brand name SKUs



Scenario Analysis: Base Proforma

A	B	O	P	Q	R	S
	Last Updated: 8/15/2010	Year 1	%	Year 2	%	Year 3
	REVENUES	Projection		Projection		Projection
	GROSS SALES	2,170,000	100.00%	2,604,000	100.00%	2,994,600
	Cost of Goods Sold	1,475,600	68.00%	1,744,680	67.00%	1,976,436
	GROSS PROFIT	694,400	32.00%	859,320	33.00%	1,018,164
	<i>Sales/SF</i>	<i>\$868/SF</i>		<i>\$1,042/SF</i>		<i>\$1,198/SF</i>
	EXPENSES					
	Personnel Costs (Look at Total not breakdown)					
	Payroll & Salary Expense	309,624	14.27%	352,783	13.55%	388,437
	Payroll Taxes & Workers Comp	33,245	1.53%	37,879	1.45%	41,707
	Employee Benefits	93,666	4.32%	106,722	4.10%	117,508
	Staff Development & Appreciation	2,148	0.10%	2,448	0.09%	2,695
	Working Member Discount & Member Coupons	98,392	4.53%	112,107	4.31%	123,437
	Total Personnel Costs	537,075	24.75%	611,940	23.50%	673,785
	Occupancy Expenses					
	Property Taxes	4,500	0.21%	4,635	0.18%	4,774
	Insurance	15,000	0.69%	15,450	0.59%	15,914
	Utilities	23,317	1.07%	24,017	0.92%	24,737
	Licenses & Permits	1,200	0.06%	1,236	0.05%	1,273
	Repairs and Maintenance	3,000	0.14%	3,090	0.12%	3,183
	Rent		0.00%			
	Depreciation/Amortization	120,058	5.53%	96,560	3.71%	99,087
	Total Occupancy Expenses	167,075	7.70%	144,987	5.57%	148,967
	Operating Expenses					
	Store Supplies	21,500	0.99%	25,800	0.99%	29,670
	Credit Card Fees	26,040	1.20%	31,248	1.20%	37,433
	Small Equipment purchases (noncap)	450	0.02%	521	0.02%	599
	Trash	0	0.00%	0	0.00%	0
	Bad Debt, Cash Over (Short), Bank Charges	0	0.00%	0	0.00%	0
	Miscellaneous	1,017	0.05%	1,047	0.04%	1,079
	Total Operating Expenses	49,007	2.26%	58,616	2.25%	68,780

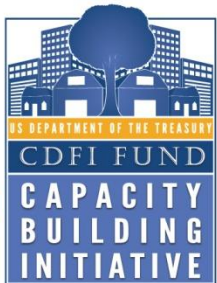


Scenario Analysis: Sales

Base Projection	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$10,400,000	\$11,000,000	\$11,700,000	\$12,300,000	\$13,000,000
Weekly Sales	\$200,000	\$211,538	\$225,000	\$236,538	\$250,000
Sales Growth		5.77%	6.36%	5.13%	5.69%
Gross Margin	23.0%	23.0%	23.0%	23.0%	23.1%
Personnel as % of Sales	9.3%	9.50%	9.50%	9.70%	9.70%
Total Expenses as % of Sales	21.7%	21.5%	21.1%	21.0%	20.8%
NOI	\$133,857	\$167,297	\$216,623	\$243,713	\$301,120
EBITDA	\$403,000	\$436,440	\$485,766	\$512,856	\$570,263
DSCR – Senior Debt	1.51x	1.63x	1.82x	1.92x	2.13x
DSCR – All Debt	1.26x	1.37x	1.52x	1.61x	1.79x

Scenario 1 reflects a *lower weekly sales* base than the projections. Specifically, the first year's base sales has been reduced from \$200K/week to \$190K/week, an annual sales reduction of \$52,000. All other variables are the same as the projections.

Scenario 1 Lower Sales Base	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$9,880,000	\$10,450,000	\$11,115,000	\$11,685,000	\$12,350,000
Weekly Sales	\$190,000	\$200,962	\$213,750	\$224,712	\$237,500
Sales Growth		5.77%	6.36%	5.13%	5.69%
EBITDA	\$283,400	\$313,240	\$357,651	\$378,171	\$418,913
DSCR – Senior Debt	1.06x	1.17x	1.34x	1.41x	1.57x
DSCR – All Debt	.89x	0.98x	1.12x	1.19x	1.31x



Scenario Analysis: Gross Margin

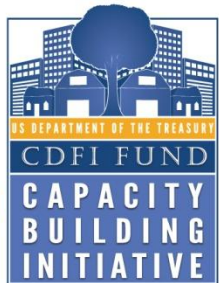
Base Projection	Year 1	Year 2	Year 3	Year 4	Year 5
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Sales Growth		5.77%	6.36%	5.13%	5.69%
Gross Margin	23.0%	23.0%	23.0%	23.0%	23.1%
Personnel as % of Sales	9.3%	9.50%	9.50%	9.70%	9.70%
Total Expenses as % of Sales	21.7%	21.5%	21.1%	21.0%	20.8%
NOI	\$133,857	\$167,297	\$216,623	\$243,713	\$301,120
EBITDA	\$403,000	\$436,440	\$485,766	\$512,856	\$570,263
DSCR – Senior Debt	1.51x	1.63x	1.82x	1.92x	2.13x
DSCR – All Debt	1.26x	1.37x	1.52x	1.61x	1.79x

Scenario 2 reflects a lower gross margin base than the projections. Specifically, the first five years' gross margins have been reduced from 23% to 22%. All other variables are the same as the projections.

Scenario 2 Slower Gross Margin Improvement	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$10,400,000	\$11,000,000	\$11,700,000	\$12,300,000	\$13,000,000
Weekly Sales	\$200,000	\$211,538	\$225,000	\$236,538	\$250,000
Sales Growth		5.77%	6.36%	5.13%	5.69%
Gross Margin	22.0%	22.0%	22.0%	22.0%	22.0%
EBITDA	\$299,000	\$326,440	\$368,766	\$389,856	\$431,263
DSCR – Senior Debt	1.12x	1.22x	1.38x	1.46x	1.61x
DSCR – All Debt	0.94x	1.02x	1.16x	1.22x	1.35x



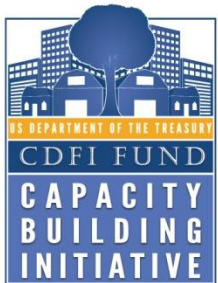
Questions & Answers



Contact Information

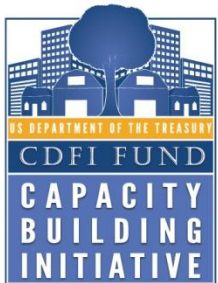
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Christina.Szczepanski@trfund.com





Additional Resources



Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp

CDFI Fund - U.S. Treasury - x

← → ↻ www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY



Financing Healthy Food Options Resource Bank

I. Training Curriculum

- [Food Systems Overview](#)
- [Healthy Food Retail Financing](#)
- [Financial Services for Mid-Tier Food Chain Enterprises](#)
- [NMTC & Urban Supermarkets](#)
- [Understanding the Grocery Industry](#)
- [Underwriting Supermarkets & Grocery Stores](#)
- [Mid-Tier Food Chain Enterprises Overview & Underwriting](#)
- [Capitalizing Healthy Food Retail Initiatives](#)
- [Identifying Optimal Areas for Supermarket Development](#)
- [Understanding the Food Production Sector](#)
- [Credit Skills for Lending to the Food Production Sector](#)
- [Food Producers Case Studies](#)
- [Identifying Partners and Convening Stakeholders](#)

II. Training Webinars

III. Additional Resources

- Searching for Markets: The Geography of Inequitable Access to Healthy and Affordable Food
 - [Executive Summary](#)
 - [Full Report](#)
- [Financial Resources Catalogue](#)

IV. Food Desert Mapping Tools

- [USDA Food Desert Locator](#)
- [PolicyMap](#)



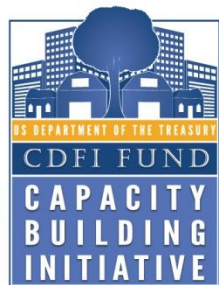
Financing Healthy Food Options Webinar Archive

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp



The screenshot shows a web browser window with the address bar displaying www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp. The page header includes the CDFI Fund logo and navigation links: WHO WE ARE, WHAT WE DO, IMPACT WE MAKE, NEWS & EVENTS, and HOW TO APPLY. The main content area is titled "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this, the section "Financing Healthy Food Options Resource Bank: Webinars" is highlighted. A note states: "Relevant Training Curriculum chapters can be found on the Resource Bank's [main page](#)." The page lists four numbered sections, each with a title and a list of links to webinar materials:

- 1. PolicyMap and Using Limited Supermarket Analysis in Your Target Market**
 - [Webinar 1 Presenter Biography](#)
 - [Webinar 1 Accompanying Presentation](#)
- 2. Healthy Food Options Program Design and Social Impact Measurement**
 - [Webinar 2 Presenters Biographies](#)
 - [Webinar 2 Accompanying Presentation](#)
 - [Sample Retail Loan Pre-Application Design](#)
 - [Sample Retail Loan Application Design](#)
 - [Sample Retail Loan Template for Data Collection \(.xls\)](#)
 - [The Grocery Gap: Who Has Access to Healthy Food and Why it Matters](#) (Food Trust and PolicyLink)
- 3. Green for Greens**
 - [Webinar 3 Presenters Biographies](#)
 - [Webinar 3 Accompanying Presentation](#)
 - [Green for Greens: Finding Public Financing for Healthy Food Retail](#) (Public Health Law & Policy)
 - [Getting to Grocery: A Toolkit for Attracting Food Retail to Underserved Neighborhoods](#) (Public Health Law & Policy)
- 4. New American Foodshed**
 - [Webinar 4 Presenters Biographies](#)
 - [Webinar 4 Accompanying Presentation](#)
 - [Field Guide to the New American Foodshed](#)
 - [Field Guide: One Page Planning](#)
 - [National Good Food Network](#)
 - [Farm Credit Council](#)



Upcoming TA Webinars

CDFI & Foundation Partnerships: Working Together to Increase Access to Affordable and Healthy Food

- Tuesday, August 28 @ 2pm EDT

Strengthening a Critical Rural Infrastructure: Rural Grocery Stores

- Thursday, September 6 @ 2pm EDT

Developing Loan Policies and Procedures for Healthy Food Financing

- Wednesday, September 12 @ 2pm EDT

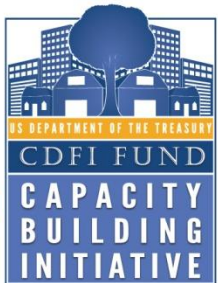
Lending to Agricultural Entrepreneurs: Analyzing A Farm Loan

- Thursday, September 20 @ 2pm EDT

Chips to Carrots: Financing Healthy Corner Stores

- Thursday, September 27 @ 2pm EDT

Visit www.opportunityfinance.net/FHFOwebinars/ to register for one or all of the TA webinars



Contact Information

Pam Porter

Executive Vice President

Strategic Consulting

Opportunity Finance Network

pporter@opportunityfinance.net

215.320.4303



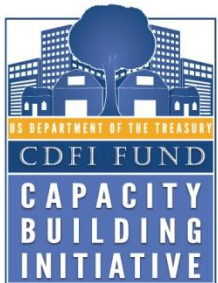
Christy Bare

Strategic Consulting

Opportunity Finance Network

cbare@opportunityfinance.net

215.320.4320





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